

**UNITED STATES BANKRUPTCY COURT
WESTERN DISTRICT OF NEW YORK**

In re:

The Diocese of Buffalo, N.Y.,

Case No.: 20-10322
Chapter 11 Case

Debtor,

**AFFIDAVIT OF REV. PETER J. KARALUS REGARDING STRUCTURE AND
PRE-FILING HISTORY OF THE DIOCESE OF BUFFALO AND IN SUPPORT OF THE
CHAPTER 11 PETITION AND FIRST DAY PLEADINGS**

STATE OF NEW YORK)
COUNTY OF ERIE) ss.:

Reverend Peter J. Karalus, being duly sworn, deposes and states as follows:

1. I am the Vicar General and Moderator of the Curia for the Roman Catholic Diocese of Buffalo. I have served in such capacity since September 10, 2018. Prior to that time, I served as a pastor in several parishes within the territory of the Diocese (as that term is defined below), and I am familiar with the mission, history, and structure of the Catholic Church in Western New York.

2. The Diocese of Buffalo, N.Y. (the “Diocese”), is a not for profit corporation organized pursuant to a special act of the New York Legislature as described in paragraph 19 below. The Diocese is the secular legal embodiment of the Diocese of Buffalo, a juridic person recognized under Canon Law (as that term is defined below).

3. On February 28, 2020 (the “Petition Date”), the Diocese filed a voluntary petition commencing the above-captioned case (this “Chapter 11 Case”) under chapter 11 of Title 11 of the United States Code (11 U.S.C. 101 et seq.; the “Bankruptcy Code”).

4. I am the Vice President of the Diocese. I am authorized to submit this Affidavit on behalf of the Diocese in connection with its voluntary chapter 11 petition and the first-day motions and applications filed with the Court contemporaneously herewith (the “First Day Motions”).

5. I make this Affidavit based upon my personal knowledge of the facts set forth herein, upon information supplied to me by others associated with the Diocese, upon my review of relevant documents and upon my experience and knowledge of Diocesan operations. If I were called to testify, I would testify accordingly to the facts set forth herein.

6. The First Day Motions seek relief aimed at facilitating a smooth transition into this Chapter 11 Case, assisting the Diocese in continuing its mission by maintaining employee compensation, maintaining the goodwill and morale of the employees, parishioners, clerics and others who rely on the programs and services provided by the Diocese, and preserving and maintaining the property available to satisfy creditors of the Diocese. I respectfully submit that all of the First Day Motions are vital to the Diocese’s reorganization efforts and expedited approval of the First Day Motions is important to the Diocese’s successful reorganization. The First Day Motions and financial structure of the Diocese are further described in the First Day Affidavit of Charles Mendolera submitted contemporaneously herewith.

CANON LAW STRUCTURE AND ORGANIZATION

7. It is a matter of faith that the Catholic Church (the “Church”)¹ was founded by Jesus Christ to carry out the mission to teach, sanctify and serve the needs of others. The Church is a worldwide community with over 1.2 billion members who adhere to a common creed. The *Code*

¹ As used herein, “Church” means the universal Catholic Church (i.e., the “one, holy, catholic and apostolic church” of Catholic belief, seated in the Vatican and headed by Pope Francis). For the avoidance of doubt, particular places of worship are referred to herein as “churches” without capitalization.

of Canon Law² establishes the internal organizational structure and procedures to be followed within the Church. Canon Law also identifies property rights and agency relationships among the various structures within the community of the Church.

8. While the Church is organized in a hierarchical structure it is not a monolithic corporate entity. A variety of organizations operate in ecclesiastical harmony to carry out the mission of the Church. The Church is organized by territorial districts, the most common of which is a diocese.³ A diocese usually is defined by a geographic area and is created to serve the community of Latin Rite Catholics present in that area. The bishop of a diocese is appointed by The Pope.⁴

9. An apostolic administrator may be appointed by the Pope to lead a diocese in the event of the resignation, removal or death of its bishop. An apostolic administrator holds substantially the same authority as a bishop to administer the temporal and spiritual affairs of a diocese. Following the resignation of Bishop Richard Malone on December 4, 2019, The Most Reverend Edward B. Scharfenberger, Bishop of the Diocese of Albany, New York, was simultaneously appointed (effective immediately on such date) by Pope Francis as the Apostolic Administrator of the Diocese.

10. The territory of the Diocese is co-extensive with the counties of Erie, Niagara, Genesee, Orleans, Chautauqua, Wyoming, Cattaraugus and Allegany in New York State.

² Canon Law comes from several sources of Church law that together establish the internal organizational structure and relationships among the entities and organizations that comprise the Church. Canon Law was originally codified in 1917, and amended by Pope John Paul II on January 25, 1983. See, 1983 Code of Canon Law c.1-1752 (1983) (“Canon Law”).

³ Canon Law, c. 369

⁴ *Id.* at c. 377 §1

11. The Diocese maintains a number of administrative offices and ministries, necessary to advance the mission of teaching, sanctifying and serving. These include the Offices of the Bishop, Chancery, Marriage Tribunal, Finance, Vocations, Computer Services, Human Resources, Communications, Advancement, Evangelization and Parish Life, Sacramental and Family Life, Catholic Schools, Research and Planning, Buildings and Properties, Pastoral Services, Pro-Life, Safe Environment, Victims Assistance, Priests Personnel and Archives, Lifelong Faith Formation, Catechumenate, Youth, Young Adults, and Insurance Services.

12. Within the territory of a diocese are separately constituted parishes.⁵ Like a diocese, a parish usually is defined territorially.⁶

13. “Juridic persons” are constituted pursuant to Canon Law or by a special grant of competent authority given through a decree, and they have perpetual existence unless extinguished in accordance with Canon Law. Juridic persons within the Church are either aggregates of persons or things, ordered for a purpose which is in keeping with the mission of the Church. Similar to the civil law concept of a corporation, a juridic person is distinct and separate from any natural person, and from other juridic persons. A “public” juridic person is a type of juridic person that fulfills its purposes in the name of the Church. Dioceses and parishes are considered separate public juridic persons.⁷

14. Each public juridic person “owns” all property it has acquired. A juridic person possesses property in order to carry out its mission to teach, sanctify, and serve. These purposes are broadly defined as the conduct of worship, the support of employees and ministers, and the

⁵ *Id.* at c. 374

⁶ *Id.* at c. 515

⁷ Juridic personality is articulated in the 1983 Code in canons 113-123.

works of the apostolate.⁸ Canon Law requires the ownership of property to be protected by valid means under secular civil law, and permits the formation of secular legal entities, like the Diocese, to hold property and conduct the business of a public juridic person.

15. The administration of property is the responsibility of a public juridic person's administrator,⁹ such as a diocesan bishop (or apostolic administrator) over the property of a diocese or a pastor over the property of a parish. The administrator of the property of a public juridic person must exercise this responsibility in concert with a finance council.¹⁰ It is a fundamental canonical understanding that property owned by one public juridic person cannot be simultaneously owned or controlled by another.

16. The persons who populate a diocese or a parish are first of all those who are baptized and live in communion with the successor of St. Peter (The Pope, otherwise known as the Supreme Pontiff of the Roman Catholic Church) and those in communion with him.¹¹ Among the baptized are laypersons and clerics.¹² Clerics are also called sacred ministers and perform many of the liturgical services within the worship of the Church. Clerics are deacons, priests or bishops. There are other individuals who contribute to the mission of the Church by joining together through common life and the profession of the evangelical counsels of poverty, chastity, and obedience (“Religious”).¹³ Religious may be either laypersons or clerics. If a Religious is not a cleric, that person is referred to as a sister or brother.

⁸ 1983 Code c.1254. The works of the apostolate include activities associated with easing human suffering, promoting the general welfare, and advancing the social mission of the Church: feeding the hungry, clothing the naked, welcoming the stranger, caring for the sick, offering education, and any other activity that can promote the good of an individual and society.

⁹ *Id.* at c.1279 § 1.

¹⁰ *Id.* at c.1280.

¹¹ *Id.* at c. 204.

¹² *Id.* at c. 207 § 1.

¹³ *Id.* at c. 207 § 2.

17. While there are a variety of forms by which Religious are organized in institutes of consecrated life, they are most often referred to as religious orders.¹⁴ These institutes, formed around the charism of a founder recognized by appropriate ecclesiastical authority, enjoy a certain level of autonomy and conduct their internal operations independently of any diocese (or other juridic persons). This is most commonly seen in the conduct of their proper apostolates; such as schools, healthcare, and monastic communities. Each institute of consecrated life is its own independent public juridic person. They are bound to the Church in a special way, but they are not part of the hierarchical constitution of the Church. Members of an institute of consecrated life are not subject to the supervision or discipline of the bishop of the diocese wherein they reside, unless they are employed in service of a parish, school or other institution that is subject to a bishop's oversight.

18. There are 22 communities of Religious men, and 17 communities of Religious women present in the territorial boundaries of our Diocese at this time.

NEW YORK CORPORATE STRUCTURE

A. The Diocese

19. Under New York Law, the Diocese is an incorporated legal entity formed pursuant to a Special Legislative Act with its own corporate structure and governance, separate from the other Catholic entities within its territory that are described in parts “B” through “F” below (the “Other Catholic Entities”).

20. The juridic person of the Diocese of Buffalo was canonically established on April 23, 1847. Thereafter, a corporation was formed on October 30, 1897 to constitute the Diocese of Buffalo under New York law. Such initial corporation was dissolved and the Diocese as it exists

¹⁴ Institutes of Consecrated Life are covered in canons 573-746 of the 1983 Code.

today was reincorporated on May 19, 1951 by a special act of the New York State Legislature (Chapter 568 of the Laws of 1951 (the “Special Act”)). The Special Act provides that the three trustees of the Diocese are the Bishop, the Vicar General and the Chancellor as required under Canon Law.

21. As noted above, the Diocese serves an 8-county region in western New York. There are currently 161 parishes (each, a “Parish,” and collectively, the “Parishes”) and approximately 594,315 Catholic individuals in the territory of the Diocese. These individuals are served by 144 active Diocesan priests, 84 Religious priests that reside in the Diocese, 25 extern priests¹⁵ and 129 permanent deacons. Deacons are men ordained for the ministry of the word (catechetics and preaching), service to the poor, and liturgical assistance. Deacons may preside at baptisms, officiate at marriages, and provide for the funeral rites apart from the celebration of the Eucharist. The Diocese employs more than 240 people, which includes both clergy and laity.

B. The Parishes

22. The secular legal embodiments of the parishes extant within the Diocese are non-member corporations (“Parish Corporations”) formed under New York’s Religious Corporation Law. Pursuant to Article 5 of the Religious Corporations Law, each of the Parish Corporations is governed by a Board of Trustees comprised of the Bishop, the Vicar General of the Diocese, the Pastor of the Parish and two lay members of the Parish. The Bishop of the Diocese is the president of each Parish Corporation, the Vicar General is the vice president and the Pastor is the secretary-treasurer (all serving *ex-officio* in accordance with New York law).

¹⁵ An extern priest is priest incardinated in another diocese or institute of consecrated life who comes with the permission of the diocesan bishop to exercise ministry in the territory of the Diocese of Buffalo. Incardination is the bond that exists between a cleric and a diocese or institute of consecrated life.

23. Each Parish Corporation owns the real and personal property that is used in its ministry. Each Parish holds its own meetings, appoints its own councils and committees, establishes its annual budget, and maintains its own books, records, bank accounts and employee payroll.

24. In 2019, throughout the 161 parishes in the Diocese there were 934 marriages, 2,646 infant baptisms, 2,750 First Communions and 2,912 Confirmations.

25. Within the Diocese, there are 34 elementary schools and one middle school (including certain schools that are designated as parish schools and certain other schools that are designated as regional schools) that serve approximately 7,759 students. Numerous Parish Corporations also own, maintain and operate cemeteries.

26. The Parish Corporations located within the Diocese are not under the fiscal or operating control of the Diocese. The Parish Corporations have not sought bankruptcy relief and are not debtors in this bankruptcy proceeding.

C. Independent Catholic Schools (Elementary and Secondary)

27. There are four elementary and twelve secondary Catholic schools in the territory of the Diocese that are separately operated and governed by Religious or private not-for-profit organizations (the “Independent Schools”). Such Independent Schools serve approximately 4,800 students.

28. Five of the Independent Schools (Bishop Timon-St. Jude (Buffalo), Notre Dame (Batavia), St. Mary’s (Lancaster), Archbishop Walsh Academy (Olean) and Cardinal O’Hara (Tonawanda)) were formerly affiliated with the Diocese. Such schools separated from the Diocese and were incorporated (chartered) by the New York State Board of Regents in 1991. Each of these

schools occupies a building that is owned by the Diocese and leased to the entity that operates the school.

29. The Independent Schools are not under the fiscal or operating control of the Diocese, have not sought bankruptcy relief and are not debtors in this bankruptcy proceeding.

D. Catholic Ministry Entities

30. There are several not-for-profit corporations that work to carry out various ministries of the Church within the territory of the Diocese (“Catholic Ministry Entities”). All of the Catholic Ministry Entities were created under New York Not-for-Profit Corporation law or other New York organizational statutes to carry out a variety of works of the apostolate. The Catholic Ministry Entities are not under the fiscal or operating control of the Diocese, have not sought bankruptcy relief and are not debtors in this bankruptcy proceeding. Each maintains its own books and records, bank accounts and employee payroll. The Catholic Ministry Entities include the following:

i. Catholic Charities

31. Catholic Charities of the Diocese of Buffalo, Inc. (“Catholic Charities”) was incorporated pursuant to Chapter 256 of the Laws of 1917 on November 23, 1923. The purpose of Catholic Charities is to aid, support, advise, and conduct, by itself or in cooperation with any religious, charitable, benevolent or educational corporation, a wide variety of human services for the benefit of persons within the Diocese.

32. Catholic Charities is a not-for-profit New York corporation with members. The members include (all serving *ex-officio*): the Bishop of the Diocese, any active Auxiliary Bishop(s) of the Diocese, the Vicar General/Moderator of the Curia of the Diocese, the Chancellor of the Diocese and the Chief Executive Officer of Catholic Charities.

33. The affairs, property, business and policies of Catholic Charities are under the charge, control and direction of the Board of Trustees, subject to certain reserved powers of the Members.

34. Catholic Charities maintains administrative and service offices in Erie and Niagara Counties, and satellite offices in Erie, Cattaraugus, Allegany, Chautauqua, Genesee, Orleans, Wyoming and Niagara Counties. Catholic Charities provides assistance to people in need without regard to religious, racial, ethnic or economic background.

ii. Christ the King Seminary

35. Christ the King Seminary (the "Seminary") was chartered as a New York State education corporation by the New York State Board of Regents on June 28, 1974. The Seminary is a New York not-for-profit corporation having the following as members (all serving *ex-officio*): the Bishop of the Diocese, the Vicar General/Moderator of the Curia of the Diocese, the Chancellor of the Diocese and the Rector of the Seminary. The Seminary is governed by a board of trustees, which is composed of the members and those other trustees elected by the members.

36. The purpose of the Seminary is to educate men to the Catholic priesthood as well as the education of permanent deacons and lay ecclesiastical ministers.

iii. Catholic Cemeteries

37. Catholic Cemeteries of the Roman Catholic Diocese of Buffalo, New York, Inc. ("Catholic Cemeteries") was incorporated as a not-for-profit corporation under New York law on December 29, 2008.

38. The members of Catholic Cemeteries, who serve *ex officio*, are the Bishop of the Diocese, the Vicar General/Moderator of the Curia of the Diocese, and the Chancellor of the Diocese.

39. The purpose of Catholic Cemeteries is to carry out the sacred religious function of the burial of the deceased.

iv. St. Adalbert's Response to Love Center

40. St. Adalbert's Response to Love Center (The "Response to Love Center") was incorporated as a New York not-for-profit corporation on December 18, 2006.

41. The Members of the Response to Love Center, who serve *ex officio*, are the Bishop of the Diocese, the Vicar General/Moderator of the Curia of the Diocese, a pastor or pastoral administrator from a Parish Corporation, and a local Felician Sister appointed by the Provincial of the Felician Sisters.

42. The purpose of the Response to Love Center is to assist and meet the needs of poverty-stricken individuals and families with programs and services that empower people to take responsibility for their lives and encourage self-sufficiency through dignity and compassion.

v. Our Lady of Victory

43. Our Lady of Victory Institutions, Inc. was incorporated on February 5, 2014 as a New York not-for-profit corporation. The sole member of Our Lady of Victory Institutions, Inc. is the Diocese.

44. The purpose of Our Lady of Victory Institutions, Inc. is to support and serve as the sole member of two separate operating not-for-profit corporations: Our Lady of Victory Homes of Charity, and Baker Hall d/b/a Baker Victory Services. These operating corporations provide a broad range of social services, including behavioral health care, residential treatment services, services for the developmentally disabled, education services, outpatient services and foster care.

vi. Catholic Health Systems, Inc.

45. Catholic Health Systems, Inc. (“Catholic Health”) was incorporated on August 14, 1985 as a New York not-for-profit corporation. The members of Catholic Health include the Diocese and Trinity Health Corporation.

46. The affairs, property, business and policies of Catholic Health are under the charge, control and direction of the Catholic Health Board of Directors except for those matters subject to the reserved powers of the members.

47. Catholic Health is a non-profit health care system that provides care to the people of Western New York through access to hospitals, long-term care facilities, primary care centers, emergency centers and several other community ministries.

vii. Housing Corporations

48. New York State Housing Development Corporation provides subsidized housing to persons of low income primarily through U.S. Department of Housing and Urban Development funding and Section 8 rent subsidies (the “Federal Housing Programs”).

49. In the territory of the Diocese, there are a number of not-for-profit corporations (the “Housing Corporations”) each of which has developed a separate housing project funded by the Federal Housing Programs. The Housing Corporations have members that include, among others, the Bishop of the Diocese, the Vicar General/Moderator of the Curia of the Diocese, the Chancellor of the Diocese, the Diocesan Director of Catholic Charities, the Chief Executive Officer of Catholic Charities, and the Diocesan Director of Older Adult Services, each of whom serve *ex officio*.

50. Each Housing Corporation holds its own meetings, owns its own property, maintains its own bank accounts, has its own Board of Directors, employs its own employees and maintains its own books, records and employee programs.

E. St. Joseph Investment Fund, Inc.

51. St. Joseph Investment Fund, Inc. (“SJIF”) was incorporated on August 30, 2006 as a New York not-for-profit corporation. The members of SJIF, all of whom serve *ex officio*, are the Bishop of the Diocese, Vicar General/Moderator of the Curia of the Diocese, Chancellor of the Diocese, the President of Catholic Charities and the Rector/President of the Seminary.

52. The purpose of SJIF is to receive funds from the Diocese, Parish Corporations and Other Catholic Entities to invest in harmony with the teachings and beliefs of the Church and to provide a fund for the pooling of investments. Each participant enters into a written participation agreement with SJIF with respect to the delivery of funds for investment, the investment strategies for the funds as part of collectively invested pools of funds, fees of SJIF for administration and management of the collective investment funds, and procedure for return of any proceeds of the invested funds including any investment return after payment of fees.

53. The SJIF Board of Directors is responsible for investment, reinvestment and custody of all investment assets of SJIF. The Board of Directors either directly or as delegated to the Board’s Investment Committee monitors performance, and periodically reports to investors and at least annually reports to the members.

54. SJIF employs multiple investment managers to provide investment advice as to appropriate investments and to manage various portfolios of securities. The investment managers are selected by the Investment Committee and approved by the Board of Directors.

55. NEPC, LLC (“NEPC”) has been engaged as an independent consultant to provide consulting services with respect to investment policy development and risk control, asset allocation strategy, investment manager searches, and investment performance analysis for SJIF.

56. Custody services for SJIF are provided by US Bank, St. Louis, Missouri for separately managed portfolios. Custody services for multi-investor funds held by SJIF are provided by various custodians, including Bank of New York Mellon, The Northern Trust Co., Deutsche Bank Trust Co., and Citco.

57. The Diocese and SJIF have entered into an administrative services contract pursuant to which the Diocese supplies SJIF with the services of certain of its employees to assist in maintaining participant and accounting records relating to the funds, and SJIF reimburses the Diocese for such services.

58. SJIF provides responsible administration and protection of temporal goods as required by Canon Law for the Diocese, Parish Corporations, and other charitable organizations operated in connection with the Diocese.

59. SJIF has not sought bankruptcy relief and is not a debtor in this chapter 11 proceeding.

F. The Foundation

60. The Foundation of the Roman Catholic Diocese of Buffalo, N.Y., Inc. (the “Foundation”) was incorporated as a New York not-for-profit corporation on December 27, 1996. The members of the Foundation, all of whom serve *ex officio*, include the Bishop of the Diocese, Vicar General/Moderator of the Curia of the Diocese, the Chancellor of the Diocese, the Chief Executive Officer of Catholic Charities and the President/Rector of the Seminary.

61. The purpose of the Foundation is to financially support the ministries of the Diocese and the Other Catholic Entities.

62. The Foundation has not sought bankruptcy relief and is not a debtor in this bankruptcy proceeding.

REASONS FOR BANKRUPTCY

63. The Diocese does not seek Chapter 11 relief to shirk or avoid responsibility for any past misconduct by clergy or for any decisions made by Diocesan authorities when addressing that misconduct. The Diocese does not seek bankruptcy relief to hide the truth or deny any person a day in court. In fact, the Diocese is committed to pursuing the truth and has never prohibited any person from telling his/her story or speaking his/her truth in public. The Diocese has publicly disclosed perpetrators. The Diocese has made and requires criminal referrals to be made for all credible allegations of sexual abuse. The Diocesan Apostolic Administrator, The Most Reverend Edward B. Scharfenberger, has acknowledged past shortcomings by the Diocese and has attempted to offer aid and comfort to victims of abuse. The Diocese has established standards for the training and background assessment of all employees, clerics and volunteers who will likely interact with children and young people.

64. The Diocese is a not-for-profit religious corporation with limited resources, including limited insurance coverage which may be applicable to claims of persons seeking remedies under the Child Victims Act (“CVA”). The Diocese acknowledges its moral obligation to compensate victims of abuse fairly and equitably. Consistent with this moral obligation, it cannot allow any single plaintiff to recover a disproportionate share of the limited funds available from the Diocese simply because the plaintiff’s case goes to trial first. Similarly, the Diocese

cannot ignore the valid claims of other creditors who stand on equal footing with the CVA claimants as general unsecured creditors of the Diocese.

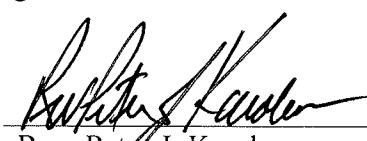
65. Beyond its obligation to creditors, the Diocese has a fundamental and moral obligation to the Catholic faithful it serves, and to the donors who have entrusted the Diocese with the material fruits of their lives' labor, to continue the ministries of the Church in fulfillment of the canonical and secular legal purposes of the Diocese. In order to do this, the Diocese must survive.

66. The Diocese's goals in seeking chapter 11 relief are two-fold: first, to protect and preserve its assets that are properly available for distribution to unsecured creditors; second, the Diocese must continue the work of the Church to the fullest extent possible, using the resources dedicated to that purpose.

67. A swift exit from bankruptcy is of the utmost importance given the Diocese's limited resources and because it is a not-for-profit religious corporation. The Diocese is dependent upon the charity of its faithful to sustain its very existence. This Chapter 11 Case may cast a shadow upon the Diocese, the Parish Corporations, and the various Other Catholic Entities and their numerous ministries. I respectfully submit that the best way to alleviate any of these concerns is to emerge from chapter 11 as soon as possible.

I swear, under penalty of perjury under the laws of the United States of America, that the foregoing is true and correct to the best of my knowledge, information and belief.

Dated: February 27, 2020



Rev. Peter J. Karalus
Vicar General, Moderator of the Curia,
and Corporate Vice President of the
Diocese of Buffalo, N.Y.

Sworn to before me this
27th day of February ___, 2020.

Maureen C. Razmus
Notary Public

MAUREEN C. RAZMUS
Notary Public - State of New York
Qualified in Erie Co. No. 01RA6286971
My Commission Expires August 5, 2021